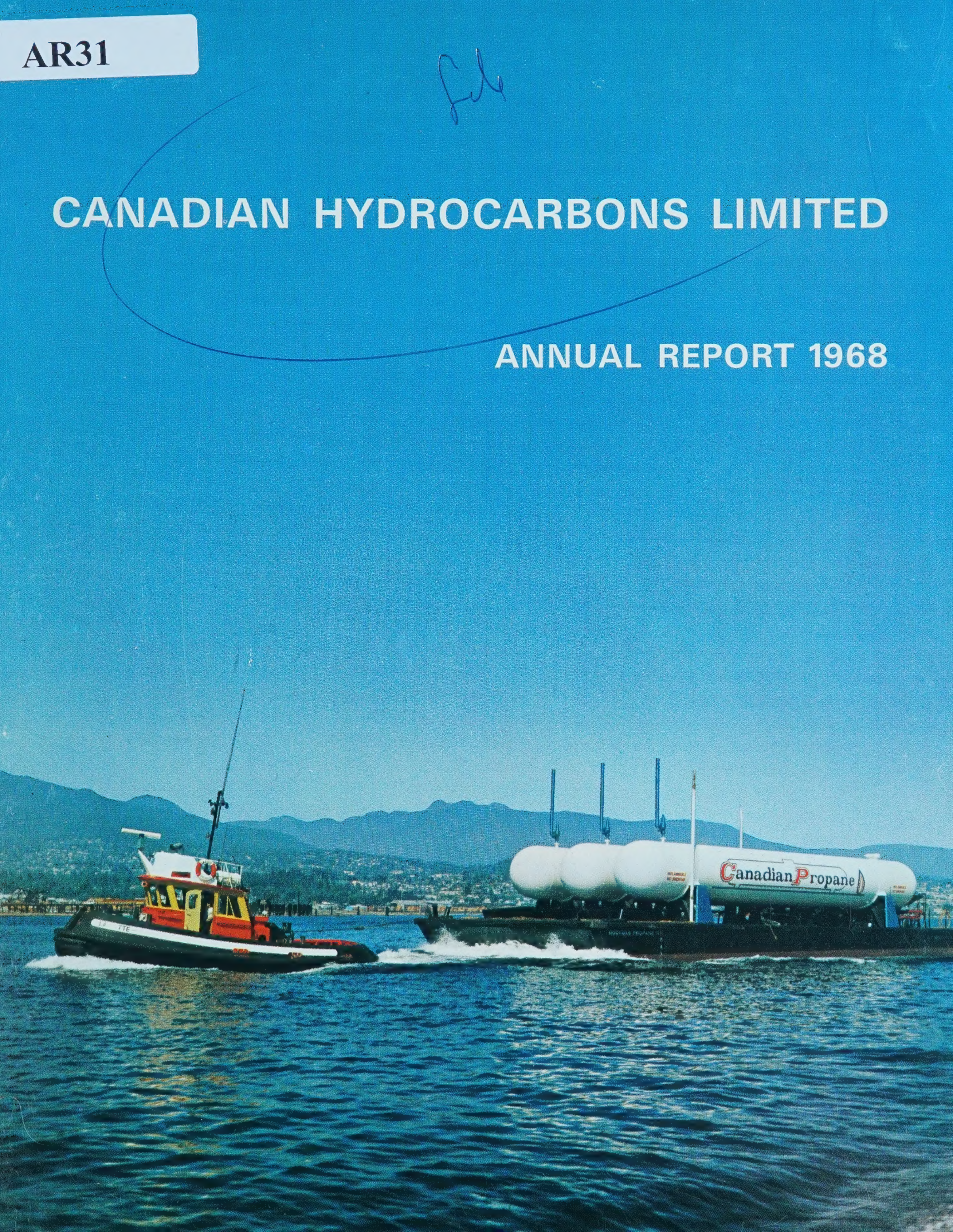
CANADIAN HYDROCARBONS LIMITED

ANNUAL REPORT 1968



Directors

FERNAND E. CHENU
Executive, Electrorail S.A.
Brussels, Belgium

MARC H. DHAVERNAS
Executive Vice-President,
Elican Development Corporation Ltd.
Montreal, Quebec

MICHAEL H. FINNELL
Vice-President, Canadian Hydrocarbons Limited
Calgary, Alberta

J. HOWARD KELLY, Q.C.
Solicitor
Calgary, Alberta

DR. FRITZ MORSCHBACH
Chief Executive Officer,
Elektrische Licht-und Kraftanlagen A.G.
Cologne, Germany

DR. COURTNAY PITT
Partner in the firm Baker, Weeks & Co.
Philadelphia, Pennsylvania

RAYMOND A. RICH
President and Chairman of the Board
Canadian Hydrocarbons Limited
New York, New York

GEORGE C. SOLOMON
President, Western Tractor Ltd.
Regina, Saskatchewan

J. GRANT SPRATT
Petroleum Consultant
Calgary, Alberta

MICHAEL J. WALTON
Partner in the firm Gunderson, Stokes, Walton & Co.
Vancouver, British Columbia

DAVID R. WILLIAMS, JR.
Chairman of Executive Committee,
Williams Brothers Company
Tulsa, Oklahoma

Officers

RAYMOND A. RICH
President and Chairman of the Board

MICHAEL H. FINNELL
Vice-President

DENNIS A. ANDERSON
Vice-President and Treasurer

JOHN G. MONTGOMERY
Assistant Treasurer

ERNEST W. STRAUS
Secretary

Principal Subsidiaries and Associated Companies

Canadian Propane Consolidated Limited
Great Northern Gas Utilities Ltd.
Castle Oil & Gas Limited
Fort St. John Petroleums Ltd.
North American Uranium Corporation
Canadian Natural Gas Liquids Limited

Canadian Homestead Oils Limited

Officers of Principal Operating Subsidiaries and Associated Companies

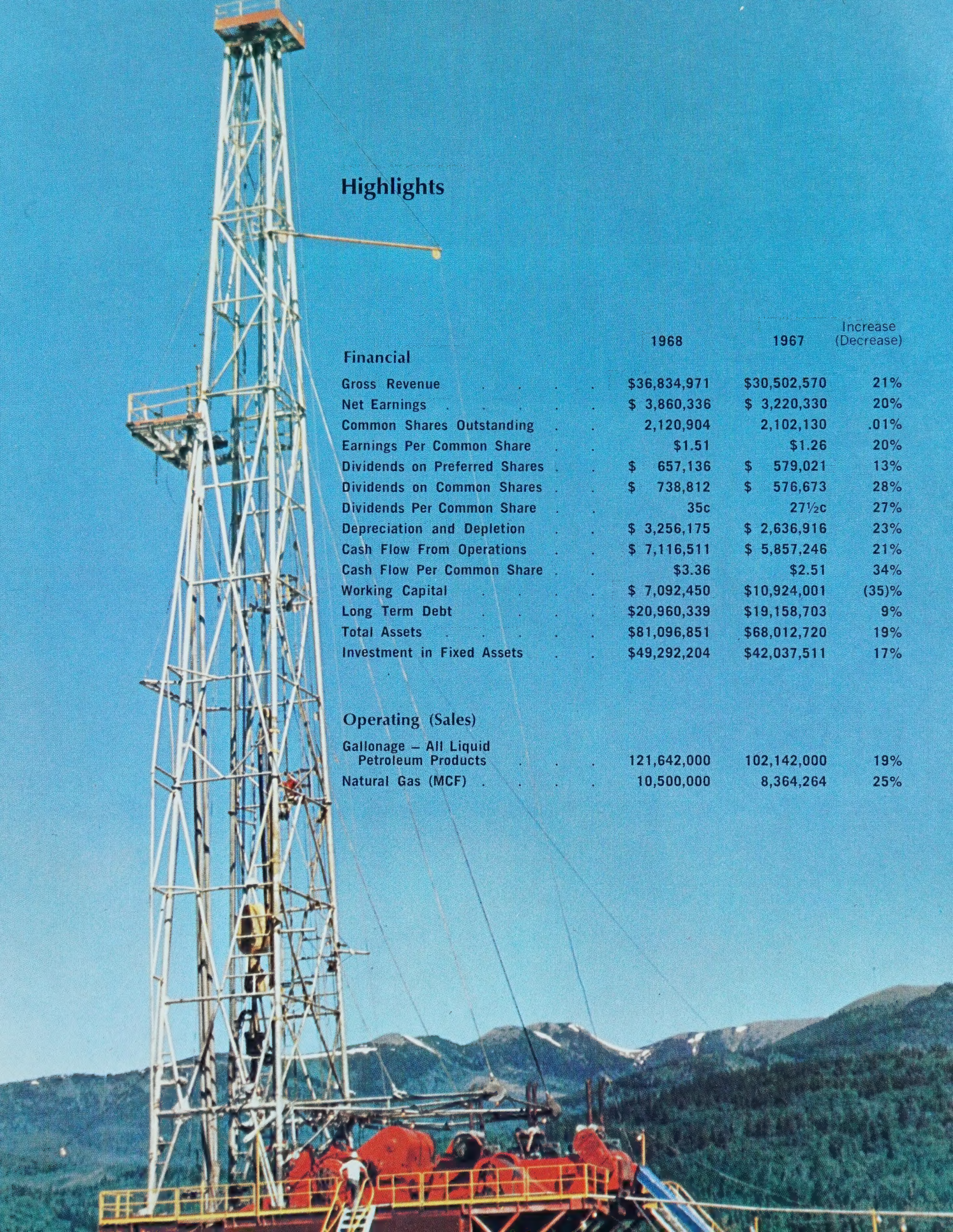
CANADIAN PROPANE CONSOLIDATED LIMITED
Gerald M. Miller, President
Donald C. Ferns, Vice-President, Marketing
Kaj W. Larsen, Vice-President
Jack Klym, Vice-President
Jean-Louis Pinault, Vice-President
Dennis A. Anderson, Vice-President and Treasurer
Raymond H. Hipfner, Vice-President and Controller
Ernest W. Straus, Secretary

GREAT NORTHERN GAS UTILITIES LTD.
Anthony C. Rooney, President
Robert C. Wharton, Vice-President, Operations
Ernest W. Straus, Vice-President, Administration, and Secretary-Treasurer

FORT ST. JOHN PETROLEUMS LTD.
Michael J. Walton, President
Anthony C. Rooney, Vice-President
Dennis A. Anderson, Secretary-Treasurer

CANADIAN HOMESTEAD OILS LIMITED
Bruce W. Watson, President
A. Gordon Savage, Vice-President, Operations
Duane E. Wikant, Vice-President and Treasurer
John M. Robertson, Q.C., Secretary

The Annual and a Special General Meeting of the Company will be held at the Head Office, at 11:00 a.m. MST May 14, 1969



Highlights

Financial

	1968	1967	Increase (Decrease)
Gross Revenue	$36,834,971	$30,502,570	21%
Net Earnings	$ 3,860,336	$ 3,220,330	20%
Common Shares Outstanding	2,120,904	2,102,130	.01%
Earnings Per Common Share	$1.51	$1.26	20%
Dividends on Preferred Shares	$ 657,136	$ 579,021	13%
Dividends on Common Shares	$ 738,812	$ 576,673	28%
Dividends Per Common Share	35c	27½c	27%
Depreciation and Depletion	$ 3,256,175	$ 2,636,916	23%
Cash Flow From Operations	$ 7,116,511	$ 5,857,246	21%
Cash Flow Per Common Share	$3.36	$2.51	34%
Working Capital	$ 7,092,450	$10,924,001	(35)%
Long Term Debt	$20,960,339	$19,158,703	9%
Total Assets	$81,096,851	$68,012,720	19%
Investment in Fixed Assets	$49,292,204	$42,037,511	17%

Operating (Sales)

Gallonage – All Liquid Petroleum Products	121,642,000	102,142,000	19%
Natural Gas (MCF)	10,500,000	8,364,264	25%

Corporate Highlights

New Records for Gross Revenues and Net Earnings

Revenues increased 21% to $36,834,971 and net earnings 20% to $3,860,336. After providing for preferred dividends, earnings per common share were $1.51, a 20% improvement over the $1.26 earned in 1967.

Acquisitions

CANADIAN HOMESTEAD OILS LIMITED. An arrangement was completed with this Canadian independent oil exploration company that will result in Hydrocarbons obtaining 51% of the company's outstanding shares. This will involve a maximum expenditure of $18,200,000, to be spent over a 9-year period and will provide Canadian Hydrocarbons with an important participation in the exploration phase of the Canadian petroleum industry.

FORT ST. JOHN PETROLEUMS LTD. From a minority investment position in this company Hydrocarbons has increased its interest to 54%. This undertaking both expands and consolidates the Company's position in British Columbia, particularly on Vancouver Island.

Company Enters Gasoline and Light Oil Market

Hydrocarbons, through Canadian Propane Consolidated, entered the gasoline and light oil marketing field with the establishment of 35 gasoline stations at the location of present propane marketing outlets.

Marketing and Refining Acquisitions

PAY-N-SAVE PETROLEUMS LTD. The acquisition of this retail marketer of gasoline and light oils in British Columbia added 25 large volume retail outlets in key market areas having an excellent potential for market expansion.

NORTHERN PETROLEUM CORPORATION (1967) LTD. This company, which operates a small refinery in Kamsack, Saskatchewan, providing a full line of asphalts and fuel oils, is supported by the company's own marketing organization.

DELCO PETROLEUMS LTD. Delco distributes gasoline and fuel oil in the Montreal area. This acquisition complements the Company's present marketing facilities in the Province of Quebec.

At year-end Hydrocarbons' annual gallonage rate for gasoline and light oil alone was approximately 50,000,000 gallons.

Mining Activities

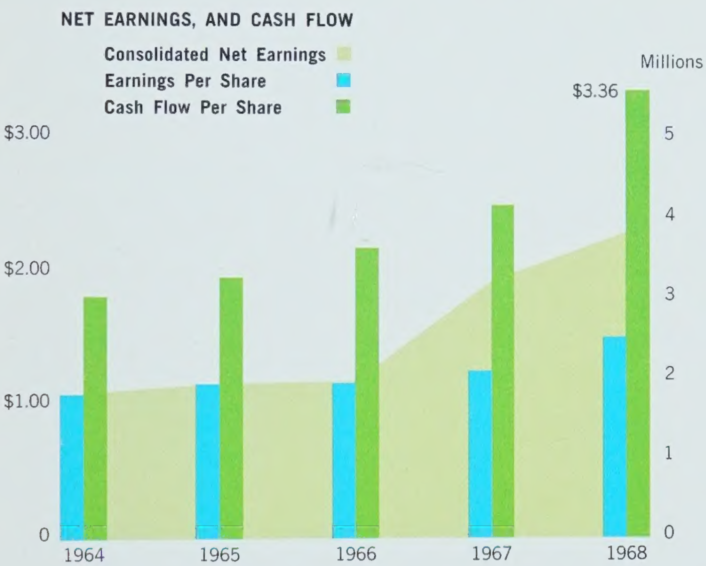
The Company actively explored its uranium properties in the States of Colorado and Utah, and acquired two permits aggregating 384,000 acres in the Wollaston Lake area of Northern Saskatchewan.

Report to the Shareholders

For Canadian Hydrocarbons 1968 was a year of continued progress, highlighted by record sales and earnings, together with important acquisitions.

Financial

Consolidated net earnings for the twelve months ended December 31, 1968 were $3,860,336, an increase of $640,006 over the previous year. This 20% improvement in earnings compares favorably with the 17% average annual increase achieved over the past 5 years. The equivalent earnings per common share were $1.51, an increase of 20% over 1967. Cash flow from operations amounted to $7,116,511, compared with $5,857,246 for the previous year, and was equivalent to $3.36 per share. These results were obtained from gross revenues of $36,834,971, which showed a 21% improvement.



Working capital at year end was $7,092,450 as against $10,924,001 on December 31, 1967. The reduction resulted essentially from investments made in the common shares of Canadian Homestead and Castle Oil & Gas. Subsequent to year end Great Northern Gas Utilities placed privately in the United States $4,000,000 (U.S.) of 20-year 7½% notes. Consolidated capital expenditures for the year amounted to $10,882,253, which included marketing facilities, transmission lines, buildings and equipment, and oil and gas exploration and acquisitions.

Canadian Homestead Oils Limited

On September 13, 1968 Hydrocarbons concluded an agreement with Homestead which provides for the spending by Hydrocarbons of $18,200,000 on properties owned and to be acquired by Homestead over a 9-year period, in exchange for treasury shares. Under terms of this agreement $9,000,000 is committed at a price of $5.50 per share for Homestead treasury shares, with the balance under option at $6.67 per share. Through a general offer to the shareholders of Castle Oil & Gas Limited, and subsequent share purchases, Hydrocarbons acquired over 83% of Castle's outstanding shares for $2,156,486. In addition to producing and non-producing properties, Castle owns 635,900 shares of Homestead. Combined with the shares to be acquired from the Homestead treasury, this holding will ultimately give Hydrocarbons control of at least 51% of Homestead's outstanding shares. Hydrocarbons presently controls 19% of Homestead's outstanding common shares. The arrangement with Homestead will involve a major acceleration in Hydrocarbons' participation in oil and gas exploration. Under this arrangement Hydrocarbons spent $599,500 in 1968 for exploration and development of Homestead's properties and received in consideration 109,000 Homestead treasury shares.

Homestead is a well managed independent Canadian petroleum exploration company. For the year ending May 31, 1968 its gross revenue exceeded $2,000,000, and its cash flow was in excess of $1,000,000. Over the past 5 years, with limited financial resources, Homestead has compounded its oil and gas reserves at an average annual rate of 30%. Homestead's 1969 exploration and development budget will be escalated almost 10-fold over the 1968 level to the $3,500,000 range. This substantial expansion of its exploration program, directed by a strengthened exploration organization, will materially enhance the company's prospects for major success. Homestead's land inventory of 13.3 million gross acres, 7.3 million net, includes 1.2 million acres in the Arctic Islands farmed out to Panarctic, which can earn up to an 85% interest, and 193,820 acres retained by the company. Of the latter, 120,047 acres (75% owned by the company) are on the Sabine Peninsula of Melville Island as close as 7 miles to the initial Panarctic location due to commence drilling in the spring of 1969. On the east coast 2.4 million acres are held in the Gulf of St. Lawrence and 444,000 acres on the Grand Banks where two major oil companies are expected to drill in the summer of 1970.

Fort St. John Petroleums Ltd.

During 1968 agreement was reached with Fort St. John Petroleums under which Hydrocarbons increased its interest in this company to approximately 54%. This additional share position in Fort St. John was acquired in exchange for propane marketing facilities located on Vancouver Island, and previously owned by Rockgas Propane Ltd., a Hydrocarbons subsidiary.

Fort St. John, through its subsidiary, Vancouver Island Gas Company Ltd., owns the butane/air utility franchise for the city of Nanaimo on Vancouver

Island, together with producing and non-producing oil and gas properties, and has acquired from Hydrocarbons propane marketing outlets in the communities of Victoria, Duncan, Nanaimo, Courtenay, Alberni, Campbell River and Port McNeill on Vancouver Island. Estimated gross revenue of Fort St. John for the first full year of operations will be in the order of $1,500,000, with net earnings of approximately $119,000. This company plans $2,000,000 of capital investment for the expansion of these facilities over the next 3 years.

Fort St. John is well established on Vancouver Island, placing the company in a favorable position to further penetrate its already broad marketing area when natural gas reaches the Island.

Propane, Gasoline and Light Oil Marketing

1968 was a year of significant development and diversification for the Company's petroleum marketing operations. In addition to achieving record levels for propane sales, the Company undertook its initial move into the market for other petroleum products, especially gasoline and light oils. The decision to distribute these products was initially motivated by the desire to maximize utilization of facilities and experienced personnel as well as the need for sales volume complementary to the seasonal character of propane sales. Experience to date has demonstrated an even greater sales potential for these products than originally anticipated. Consequently, a major expansion in this new field was initiated in the summer of 1968. Marked progress has already been made in establishing the company as an important marketer of these new products, both through existing well located propane sales outlets, and by the acquisition of companies.

1968 saw the installation of retail gasoline and light oil facilities at 35 of the Company's existing 120 propane outlets. In addition to this internal expansion the Company acquired Pay-N-Save Petroleums Limited in British Columbia, Northern Petroleum Corp. (1967) Ltd. in Saskatchewan, and Delco Petroleums Inc. in the Province of Quebec, adding 30 more outlets. The new installations and acquisitions, combined with the already established stations, bring the total of gasoline and light oil outlets to 80. The facilities of the companies acquired are located in key market areas having excellent potential for future expansion. It is anticipated that acquisitions will play an increasingly important role in the growth of this significant facet of the business.

While sales of gasoline and light oils amounted to only 14,660,000 gallons for 1968, the annual volume rate for these products at year-end as a result of new installations and acquisitions was approximately 50,000,000 gallons.

Though the successful venture into the gasoline and light oil business must be considered the most significant marketing development of the year, the Company continued to expand its propane and merchandise markets at an accelerated rate. The volume of propane sold in 1968 reached an all time high of 106,982,000 gallons, an increase of 5% over 1967. It is significant that these records were achieved entirely through internal sales growth.

During the year the Company carried out several marketing programs which resulted in greater market penetration, particularly the development of large volume commercial and industrial applications. Market development was greatly assisted by an adequate supply of propane at lower prices, particularly during the last quarter of the year, which improved propane's competitive position in the market, and at the same time resulted in higher gross profit margins. The full effect of these higher margins will be realized in 1969. The month of December was extremely cold, causing a very high peak consumer demand which was effectively serviced by the Company's large modern transportation fleet and reserve supplies stored at the Hughenden underground storage caverns. Current indications are that future supply will exceed demand for several years and the resulting stable product costs will allow further penetration and expansion of the Company's marketing areas.

The scope and profitability of the marketing organization was further improved through the amalgamation of all propane operations into the Canadian Propane Consolidated Limited organization. As in the case of lower product cost, the full effect of these efficiencies will be realized in 1969.

The progress made this year provides a broader base for continued expansion of propane marketing activities, as well as for the development of the large potential market for gasoline and light oil.

Natural Gas Distribution

Great Northern Gas Utilities Ltd., which was acquired in 1967 and through which the Company's natural gas utility companies are operated, sold 10.5 billion cubic feet of gas, an increase of 25% over the previous year. This increase is largely attributable to a full year's operation of the contract with the Simplot Chemical Company Limited's fertilizer plant at Brandon, Manitoba, which commenced in the fall of 1967, together with the success of the Company's rural gasification program that exceeded expectations with the addition of 900 farm customers since the program was initiated in the fall of 1967. Gas supply is obtained under long term contracts from pipe line companies, producers at the well head, and gathering systems, and from 18 company-operated gas wells.

Oil and Gas Production and Exploration

Oil and gas production revenue for the year was $1,091,366. Expenditures for exploration, development and acquisition were $4,047,122, not includ-

ing expenditures by Hydrocarbons on Homestead acreage. During the year the Company participated in the drilling of a deep test in the highly potential Berland River gas area of Alberta. The results of this well are being kept confidential pending further developments. In addition to the acreage earned by the drilling of the well, the Company subsequently participated in the purchase of two adjoining drilling reservations, one in July and the other in December of 1968. Hydrocarbons holds interests varying from 8% to 16% in 26,720 acres in the immediate area of the well.

Mining Activities

Through its wholly-owned subsidiary, North American Uranium Corporation, Hydrocarbons is participating in two important U.S. uranium plays – one in the Uravan Mineral Belt of Western Colorado, and the other in the Lisbon Valley area of Eastern Utah. North American Uranium Corporation has undertaken exploration and development work in these areas to earn a 40% interest, with an option to purchase an additional 10% interest, in a total of approximately 1,500 claims (30,000 acres). Bore hole drilling on a 15,000 acre block near the Slick Rock area of Colorado has developed a small uranium-vanadium ore body. This is currently being mined through old workings on the property. It is anticipated that underground exploration will lead to the development of further ore.

Four miles southeast of this operation, and on the same claim group, bore hole drilling has developed 11,000 tons of high grade uranium-vanadium ore, having a value of approximately $40 per ton. The real significance of these two discoveries is that ore bodies of this type occur in clusters, giving encouragement to the probability of finding additional ore bodies.

Subsequent to the Gulf uranium discovery in the Wollaston Lake area of Northern Saskatchewan, two exploration permits, aggregating approximately 384,000 acres, were taken out. One is located in the sandstone basin and the other in the older crystalline area near the edge of the basin. An exploration program for these properties is now in preparation.

Corporate Reorganization

Under a plan initiated two years ago, and culminating with the Company's most recent acquisitions, the corporate structure of Hydrocarbons has been re-aligned, with the principal operations allocated between self-contained subsidiaries. All LP gas marketing operations are conducted through Canadian Propane. The natural gas utility operations are concentrated in Great Northern Gas Utilities. Future oil and gas exploration will be conducted primarily through Homestead, and North American Uranium Corporation will initiate investment opportunities in other mineral resources.

This reorganization, with operating responsibilities delegated to subsidiaries, will enable the parent company, Hydrocarbons, to direct greater effort in the pursuit of acquisitions and mergers, employing the Company's substantial cash and credit resources to further integrate and diversify in the energy field.

Directors

Mr. Donald M. Deacon is now devoting all his time to public service as a Member of the Parliament of the Province of Ontario and has felt it appropriate to resign all his directorships, including Canadian Hydrocarbons. Mr. Deacon has made an important contribution through his long association with the Company, and the Directors wish him every success in his new career.

Common Share Stock Split and Increase in Preferred Share Capital

At a meeting of the Board held on March 18, 1969 the Directors approved a by-law providing for a 2 for 1 split in the issued and unissued common share capital of the Company. At the same meeting a by-law was approved increasing the authorized $25 par value second preferred share capital of the Company from $7,500,000 to $100,000,000. These by-laws are subject to shareholder approval. A Special General Meeting of shareholders will be held in conjunction with the annual General Meeting on May 14th to consider ratification of these by-laws.

The achievements of the past year, reflected in the record performance, are attributed in large measure to the skills and dedication of the employees, whose efforts have strengthened the Company and enhanced its ability to meet the challenges of the industry.

Submitted on behalf of the Board of Directors:

President and Chairman of the Board

Calgary, Alberta
April 2, 1969

300,000

SERVICE FROM COAST TO COAST

MAJOR FACILITIES AND DISTRIBUTION LOCATIONS

Piped Gas Franchises . .	37
Retailed Outlets	
– Propane	118
– Petroleum Products . .	57
Storage Points	33
Consignee Operated Outlets	
– Propane	45
– Petroleum Products . .	9
Processing Plants and Refineries	2
Railway Tank Cars . . .	125
Highway Transports . . .	34
Bulk Delivery Trucks	
– Propane	219
– Petroleum Products . .	18
Service Trucks and Vehicles	287
Employees	730
Customers (Propane and Utilities)	132,324
Miles of Pipeline (Transmission and Distribution)	1,755
Storage Facilities Total Propane Field Storage Gallonage (Imp.)	46,717,800

LEGEND

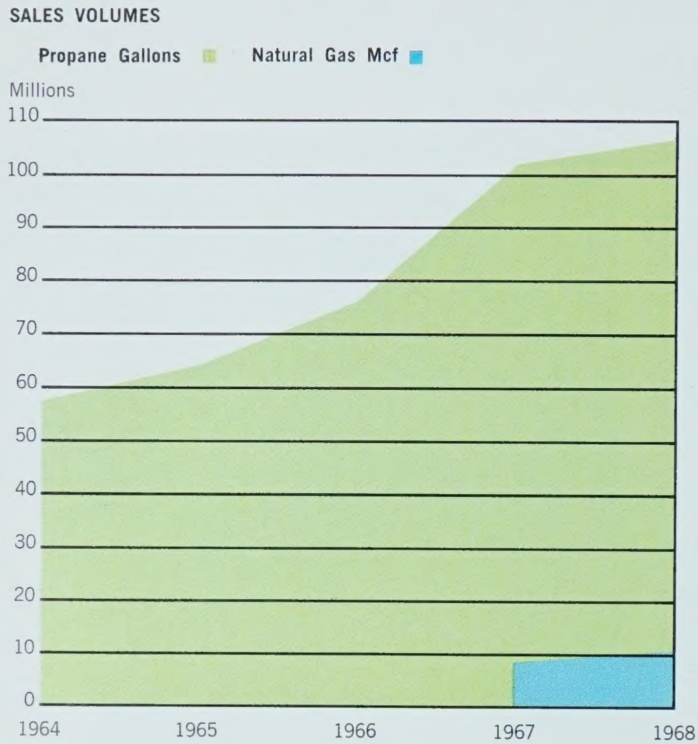
RETAIL – Propane ●
Propane/Petroleum ●
Petroleum ●

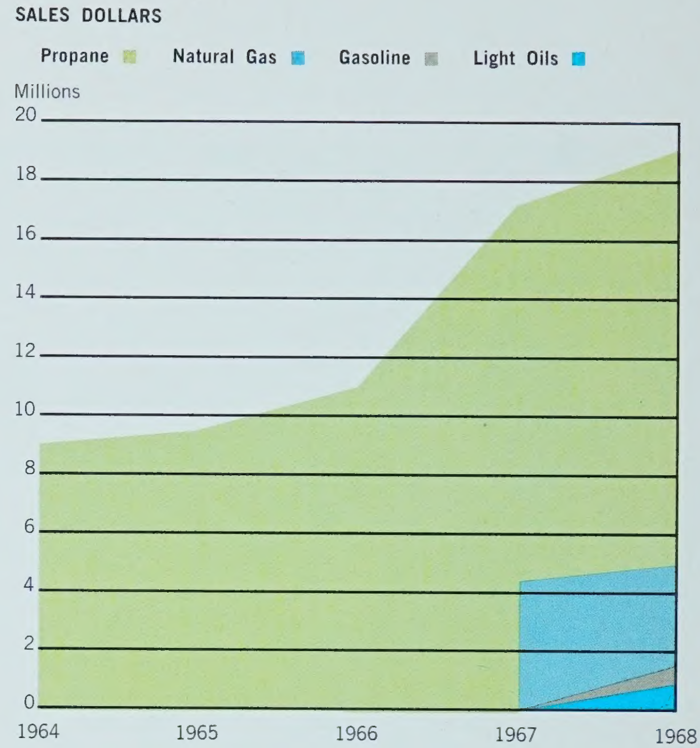
STORAGE POINTS – Propane/Butane △

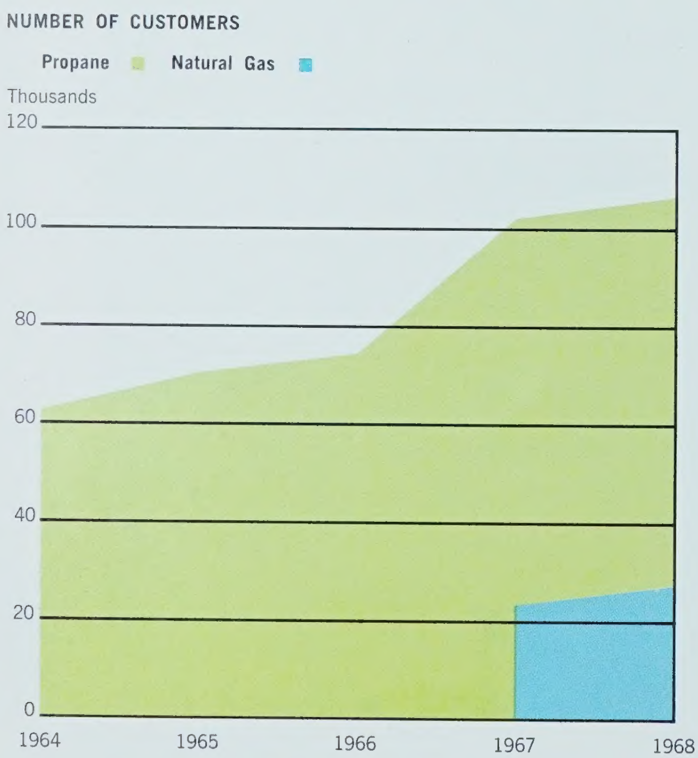
CONSIGNEES – Propane ○
Propane/Petroleum ○
Petroleum ○

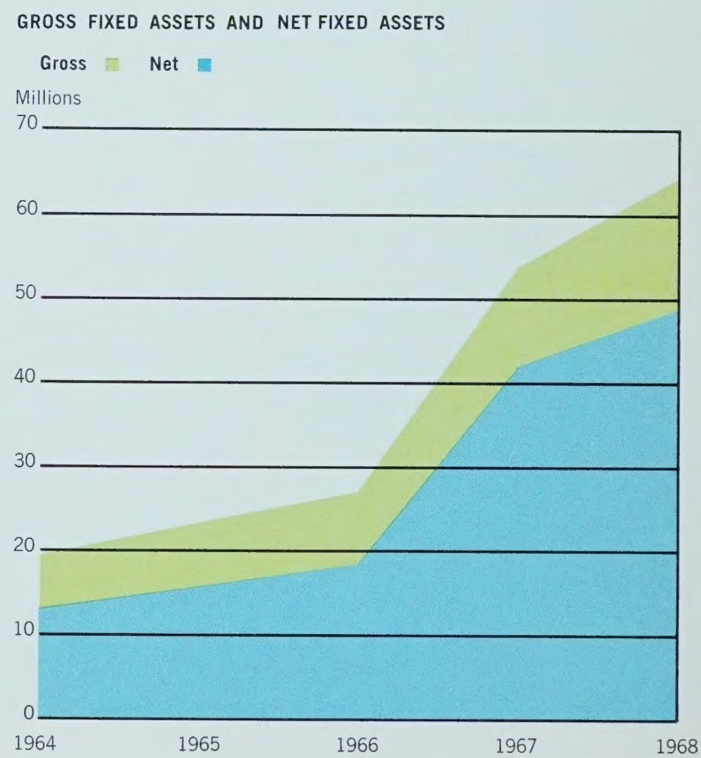
PIPED GAS FRANCHISES □

REFINERIES AND PROCESSING PLANTS ★


SALES VOLUMES
Propane Gallons
Natural Gas Mcf
Millions
110
100
90
80
70
60
50
40
30
20
10
0
1964
1965
1966
1967
1968


SALES DOLLARS
Propane
Natural Gas
Gasoline
Light Oils
Millions
20
18
16
14
12
10
8
6
4
2
0
1964
1965
1966
1967
1968


NUMBER OF CUSTOMERS
Propane
Natural Gas
Thousands
120
100
80
60
40
20
0
1964
1965
1966
1967
1968


GROSS FIXED ASSETS AND NET FIXED ASSETS
Gross
Net
Millions
70
60
50
40
30
20
10
0
1964
1965
1966
1967
1968

Consolidated Statement of Earnings

Years ended December 31, 1968 and 1967

	1968	1967
REVENUE:		
Sales	$33,971,011	$28,339,873
Installation rentals	1,498,650	1,503,504
Interest and other income	1,365,310	659,193
	36,834,971	30,502,570
EXPENSES:		
Cost of gas and merchandise sold	17,375,971	14,068,209
Operating, selling and administrative expenses	9,431,495	8,545,527
Interest and expense on long term debt	1,285,735	1,062,646
Other interest expense	366,256	202,235
Depreciation	2,489,840	2,400,186
Depletion	766,335	236,730
Minority interest in earnings of subsidiaries –		
Preferred share dividends	177,862	179,850
Other	19,511	–
	31,913,005	26,695,383
Earnings before income taxes	4,921,966	3,807,187
Income taxes (Note 4)	1,061,630	586,857
NET EARNINGS FOR THE YEAR	3,860,336	3,220,330
Extraordinary items – gain on sale of fixed assets net of investments written off	–	992,408
Net earnings for the year and extraordinary items	$ 3,860,336	$ 4,212,738
EARNINGS PER COMMON SHARE		
Net earnings for the year	$1.51	$1.26
Extraordinary items	–	.47

Consolidated Statement of Retained Earnings

Years ended December 31, 1968 and 1967

	1968	1967
Balance at beginning of year	$11,469,454	$ 8,412,410
Add net earnings for the year and extraordinary items	3,860,336	4,212,738
	15,329,790	12,625,148
Deduct dividends:		
First Preferred Shares, Series A	184,062	186,295
Second Preferred Shares, Series A		
Fixed	390,000	325,000
Participating	83,074	67,726
Common shares	738,812	576,673
	1,395,948	1,155,694
Balance at end of year	$13,933,842	$11,469,454

(See accompanying notes)

Consolidated Balance Sheet

December 31, 1968 and 1967

ASSETS

	1968	1967
CURRENT:		
Cash	$ 1,014,734	$ 499,156
Short term deposits	8,108,173	9,910,319
Accounts and notes receivable	9,938,098	7,942,090
Inventories at lower of cost or replacement cost	3,600,543	3,448,547
Prepaid expenses	242,392	250,984
	22,903,940	22,051,096
INVESTMENTS AT COST:		
Shares of Canadian Homestead Oils Limited (Note 2)	5,591,315	–
Other	789,700	1,229,947
	6,381,015	1,229,947
FIXED AT COST (Note 3):	64,912,263	54,092,402
Less accumulated depreciation and depletion	15,620,059	12,054,891
	49,292,204	42,037,511
OTHER:		
Debt financing expenses less amounts written off	326,742	343,128
Cost of shares of subsidiaries over net book value at dates of purchase	2,192,950	2,351,038
	2,519,692	2,694,166
	$81,096,851	$68,012,720

LIABILITIES

	1968	1967
CURRENT:		
Bank loans and bankers' acceptances ($3,575,000 secured)	$ 7,887,805	$ 5,805,000
Accounts payable and accrued charges	5,528,700	3,955,332
Income taxes payable (Note 4)	770,264	308,329
Current maturities of long term debt (Note 5)	1,624,721	1,058,434
	15,811,490	11,127,095
LONG TERM DEBT (Note 5)	20,960,339	19,158,703
DEFERRED INCOME AND DEPOSITS	1,511,953	1,291,317
MINORITY INTEREST IN SUBSIDIARIES:		
Preferred shares of Great Northern Gas Utilities Ltd.	2,937,500	2,995,000
Other	2,168,505	–
	5,106,005	2,995,000
SHAREHOLDERS' EQUITY:		
Capital (Note 6) –		
Authorized – 250,000 5½% cumulative redeemable first preferred shares Series A of a par value of $20 each		
– 300,000 second preferred shares of a par value of $25 each		
– 7,000,000 common shares of no par value		
Outstanding – 222,505 first preferred shares – Series A (1967 – 167,440 shares)	4,450,100	3,348,800
– 260,000 6% cumulative redeemable participating second preferred shares Series A	6,500,000	6,500,000
– 2,120,904 common shares (1967 – 2,102,130 shares)	12,168,975	11,951,742
	23,119,075	21,800,542
Contributed surplus – contributions in aid of construction	654,147	170,609
Retained earnings	13,933,842	11,469,454
	37,707,064	33,440,605
COMMITMENTS AND CONTINGENCIES (Notes 2 and 8)		
	$81,096,851	$68,012,720

On behalf of the Board:

R. A. RICH, Director.

DAVID R. WILLIAMS, JR., Director.

(See accompanying notes)

Consolidated Statement of Source and Application of Funds

Years ended December 31, 1968 and 1967

	1968	1967
FUNDS WERE PROVIDED FROM:		
Operations –		
Net earnings for the year	$ 3,860,336	$ 3,220,330
Add depreciation and depletion	3,256,175	2,636,916
Cash flow from operations	7,116,511	5,857,246
Shares issued –		
Common	217,233	6,108,654
First preferred Series A	1,245,000	60,000
Second preferred Series A	–	6,500,000
Disposal of fixed assets	1,017,661	5,024,725
Additional long term debt	2,227,083	4,292,206
Contributions in aid of construction	483,538	170,609
	12,307,026	28,013,440
FUNDS WERE APPLIED TO:		
Investment in subsidiaries	*5,347,103	* 11,264,995
Purchase of fixed assets	7,566,784	6,270,546
Dividends on common and preferred shares	1,395,948	1,155,694
Reduction of long term debt	1,180,174	722,450
Investment in Canadian Homestead Oils Limited (Note 2)	599,500	–
Redemption of first preferred shares	143,700	76,500
Other	(94,633)	273,325
	16,138,576	19,763,510
INCREASE (DECREASE) IN WORKING CAPITAL DURING THE YEAR	$ (3,831,550)	$ 8,249,930

* Comprised principally of the following:		
Investment in Canadian Homestead Oils Limited (Note 2)	$ 4,991,815	$ –
Fixed assets	3,315,469	23,394,243
Long term debt	(754,727)	(8,957,437)
Minority interest	(2,168,505)	(3,000,000)
Other assets and liabilities – net	(36,949)	(171,811)
	$ 5,347,103	$11,264,995

(See accompanying notes)

Notes to Consolidated Financial Statements

December 31, 1968

1. **PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of Canadian Hydrocarbons Limited and all its subsidiaries. The excess of the cost of purchased subsidiaries over the related net book values at dates of purchase has been allocated to fixed assets and investments to the extent that it is attributable thereto and the balance is included in "cost of shares of subsidiaries over net book value at dates of purchase".

2. **INVESTMENT IN CANADIAN HOMESTEAD OILS LIMITED**

Under the terms of an agreement entered into during the year between Canadian Propane Consolidated Limited and Canadian Homestead Oils Limited, Canadian Propane is committed to expend $9,000,000 in the conduct of drilling and exploration operations on Canadian Homestead properties at the rate of approximately $1,500,000 per year to December 31, 1974. As consideration for such expenditures Canadian Propane will receive one common share of Canadian Homestead for each $5.50 so expended. Alternatively, Canadian Propane has the option to acquire shares from the treasury of Canadian Homestead at a cost of $5.50 per share to the extent committed funds have not been expended. To December 31, 1968 Canadian Propane expended $599,500 under the terms of the agreement and received 109,000 shares of Canadian Homestead. In addition, Canadian Propane has the option to expend a further $9,200,000 on Canadian Homestead properties to December 31, 1977 in exchange for one common share of Canadian Homestead for each $6.67 so expended. Similarly, these shares may be acquired from the treasury of Canadian Homestead at a cost of $6.67 per share.

Concurrently, Canadian Hydrocarbons Limited acquired 83.5% of the outstanding shares of Castle Oil & Gas Limited, which company's principal asset is an investment of 635,900 common shares of Canadian Homestead. The accounts of Castle are included in the consolidated financial statements.

The companies' total investment in Canadian Homestead at December 31, 1968, through the acquisition of Castle together with the shares owned directly by Canadian Propane, amounts to 744,900 shares at a carrying value of $5,591,315. The total market value of these shares at December 31, 1968 was $9,125,000, based on the quoted market price of $12.25 per share at that date. The companies' investment represents 19.4% of the outstanding common shares of Canadian Homestead.

3. **FIXED ASSETS**

	1968	1967
Customers' installations	$18,471,014	$18,351,684
Transmission lines and distribution systems	15,734,132	13,613,155
Buildings and equipment	13,852,761	10,599,101
Automotive equipment	5,924,961	5,505,723
Oil and gas properties and equipment	9,388,407	5,228,501
Land	1,540,988	794,238
	64,912,263	54,092,402
Deduct:		
Accumulated depreciation	13,790,372	11,352,847
Accumulated depletion	1,829,687	702,044
	15,620,059	12,054,891
	$49,292,204	$42,037,511

Depreciation is provided on a straight line basis at rates designed to amortize the cost of the assets over their estimated useful lives. Depreciation and depletion of oil and gas properties and equipment is provided on a composite unit of production method based on total estimated reserves of oil and gas.

4. **INCOME TAXES**

The Income Tax Act and related Regulations permit the companies to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in excess of the related depletion and depreciation provided in the accounts. For 1968, capital cost allowances claimed are not significantly different from depreciation provided in the accounts but drilling, exploration and lease acquisition costs claimed are in excess of depletion provided and accordingly income taxes otherwise payable for the year have been reduced.

The companies do not consider it appropriate to provide for income taxes deferred as a result of claiming for income tax purposes drilling, exploration and lease acquisition costs in excess of depletion provided in the accounts and this view conforms with general practice in the oil and gas industry. Accordingly, no provision has been made in the accounts for income taxes deferred with respect to timing differences involving such costs. If the tax allocation basis of accounting had been followed for all timing differences between taxable income and reported income, as recommended by The Canadian Institute of Chartered Accountants, the income tax provision would have been increased and net earnings for the year would have been decreased by $1,240,000 ($1,280,000 in 1967). The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $8,410,000 at December 31, 1968.

The Federal tax authorities have issued notices of re-assessment for the 1965 and 1966 taxation years of a subsidiary disallowing certain deductions in arriving at taxable income. The amount of taxes and interest claimed, approximately $500,000, has not been provided in the accounts since in the opinion of the Company's legal advisors, the subsidiary should be entitled to the deductions and the re-assessments have been contested.

5. **LONG TERM DEBT**

	1968	1967
6½% Sinking Fund Debentures, Series A, due 1981	$ 2,870,000	$ 3,010,000
6¼% Sinking Fund Debentures, Series B, due 1982	1,720,000	1,800,000
6½% Sinking Fund Debentures, Series C, due 1987, subject to annual Sinking Fund payments commencing in 1973 ($3,071,000 U.S.)	3,299,406	3,299,406
6% Sinking Fund Debentures, Series A, of Great Northern Gas Utilities Ltd. – due 1985	8,713,500	8,820,000
7¼% to 7½% Bank Production Loans (secured by oil and gas properties), due 1973	4,730,777	2,653,376
5% to 7½% Notes and Mortgages, due on various dates to 1979	1,251,377	634,355
	22,585,060	20,217,137
Less current maturities included in current liabilities	1,624,721	1,058,434
	$20,960,339	$19,158,703

Long term debt repayments for the years 1970 to 1973 are as follows:

1970 – $1,630,000; 1971 – $1,420,000; 1972 – $1,225,000; 1973 – $1,160,000.

Financing expenses are being amortized over the terms of the issues.

6. **CAPITAL**

During the year, 18,774 common shares were issued for $217,233 upon exercise of stock options by officers and employees and 62,250 first preferred shares were issued at par as partial consideration for the acquisition of subsidiary companies.

Under the conditions attached to the outstanding preferred shares, the Company is required to purchase for redemption, in each calendar year, $70,000 par value first preferred shares Series A (cumulative to a maximum of $140,000 in any calendar year) and $97,500 par value second preferred shares Series A (not cumulative), if available on the open market, at a price not exceeding their par value. The Company has satisfied its obligations relating to the first preferred shares to December 31, 1968 and no second preferred shares were available on the open market during the year. In addition, the first preferred shares are redeemable at any time at a price not exceeding $21 per share and the second preferred shares are redeemable at any time after December 31, 1971 at a price not exceeding $26.50 per share.

To December 31, 1968, 17,745 first preferred shares of an aggregate par value of $354,900 have been redeemed (7,185 shares during 1968). Accordingly, consolidated retained earnings at December 31, 1968 includes $354,900 designated as "capital surplus" under the provisions of the Canada Corporations Act.

At December 31, 1968 options were outstanding to officers to purchase 7,851 common shares and to employees to purchase 24,275 common shares at prices ranging from $10.25 to $13.88 per share, exercisable on various dates to February 7, 1973.

7. **ADDITIONAL STATUTORY INFORMATION**

The total remuneration paid to the directors and senior officers of the Company during 1968 amounted to $185,010 which includes $136,506 paid to directors in their capacity as directors, officers or employees.

8. **COMMITMENTS**

In addition to the commitments outlined in Note 2, the companies have entered into long term contracts to lease certain fixed assets at annual rentals of approximately $138,000 to 1982.

Auditors' Report

To the Shareholders of Canadian Hydrocarbons Limited.

We have examined the consolidated balance sheet of Canadian Hydrocarbons Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company and its subsidiaries as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
March 10, 1969.

CLARKSON, GORDON & CO.
Chartered Accountants.

10-Year Review

Summary of consolidated statements of earnings for the years ended on the dates shown
(all figures expressed in thousands)

	December 31 1968	December 31 1967 *
REVENUE		
Sales	$ 33,971	$ 28,340
Installation rentals earned	1,499	1,504
Interest and other income	1,365	659
	$ 36,835	$ 30,503
EXPENSES		
Cost of gas and merchandise sold	$ 17,376	$ 14,068
Operating, selling and administrative expenses	9,848	8,748
Interest and expense on long term debt	1,286	1,063
Depreciation and depletion	3,256	2,637
Minority interest in earnings	197	180
	$ 31,963	$ 26,696
EARNINGS		
Earnings before income taxes	$ 4,872	$ 3,807
Income taxes	1,012	587
Net earnings for the year	$ 3,860	$ 3,220
Extraordinary items	–	992
Net earnings and extraordinary items	$ 3,860	$ 4,212
Dividends on preferred shares	$ 657	$ 578
Net earnings applicable to common shares	$ 3,203	$ 3,634

* Great Northern Gas Utilities Ltd. acquired January 1, 1967

Financial and Other Information

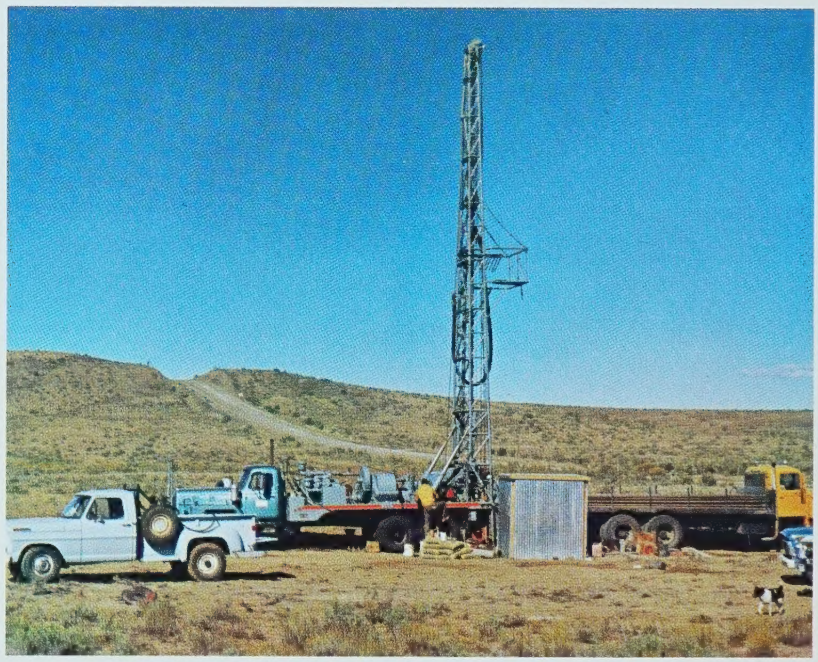
	December 31 1968	December 31 1967 *
Working capital	$ 7,092	$ 10,910
Long term debt	$ 20,960	$ 19,159
Preferred shares	$ 10,950	$ 9,849
Common shareholders' equity	$ 26,757	$ 23,892
Number of common shares outstanding	2,121	2,102
Common shareholders' equity per share	$ 12.62	$ 11.22
Earnings per common share	$ 1.51	$ 1.26
Dividends per common share	$ .35	$ .275
Cash flow from operations	$ 7,117	$ 5,857
Cash flow per share applicable to common shares	$ 3.36	$ 2.51
Purchase of fixed assets (net)	$ 6,549	$ 1,246
Fixed assets including excess cost of shares of subsidiaries	$ 51,406	$ 44,389
Propane sales	$ 18,685	$ 17,270
Natural gas sales	$ 5,100	$ 4,407
Oil and gas production sales	$ 1,091	$ 443
Merchandise sales	$ 5,329	$ 4,711
Gallonage – liquid petroleum products	121,642	102,142

ecember 31 1966	December 31 1965	March 31 1965	March 31 1964	March 31 1963	March 31 1962	December 31 1960	December 31 1959
$ 15,952	$ 14,322	$ 13,503	$ 12,234	$ 10,412	$ 9,472	$ 7,330	$ 7,111
917	751	653	590	508	438	351	386
102	164	105	27	—	—	—	—
$ 16,971	$ 15,237	$ 14,261	$ 12,851	$ 10,920	$ 9,910	$ 7,681	$ 7,497
$ 7,900	$ 7,019	$ 6,554	$ 6,285	$ 5,319	$ 4,903	$ 3,680	$ 3,391
4,963	4,380	4,237	3,672	3,319	3,157	2,502	2,399
429	434	419	383	281	181	131	146
1,694	1,443	1,249	1,096	909	729	605	595
—	—	—	—	—	11	40	85
$ 14,986	$ 13,276	$ 12,459	$ 11,436	$ 9,828	$ 8,981	$ 6,958	$ 6,616
$ 1,985	$ 1,961	$ 1,802	$ 1,415	$ 1,092	$ 929	$ 723	$ 881
—	—	—	—	(42)	57	91	190
$ 1,985	$ 1,961	$ 1,802	$ 1,415	$ 1,134	$ 872	$ 632	$ 691
—	—	—	—	—	—	—	—
$ 1,985	$ 1,961	$ 1,802	$ 1,415	$ 1,134	$ 872	$ 632	$ 691
$ 187	$ 192	$ 81	—	—	—	—	—
$ 1,798	$ 1,769	$ 1,721	$ 1,415	$ 1,134	$ 872	$ 632	$ 691
$ 3,056	$ 3,643	$ 6,334	$ 3,357	$ 3,068	$ 2,158	$ 1,425	$ 2,013
$ 6,644	$ 6,131	$ 6,491	$ 5,475	$ 5,737	$ 3,610	$ 2,010	$ 2,292
$ 3,365	$ 3,452	$ 3,500	—	—	—	—	—
$ 14,255	$ 12,833	$ 11,901	$ 10,607	$ 9,274	$ 8,199	$ 6,866	$ 6,414
1,597	1,593	1,591	1,567	1,524	1,508	1,400	1,400
$ 8.93	$ 8.06	$ 7.48	$ 6.77	$ 6.09	$ 5.44	$ 4.90	$ 4.58
$ 1.13	$ 1.11	$ 1.08	$ .90	$ .74	$ .58	$ .45	$ .49
$ .25	$ .25	$ .225	$ .15	$ .10	$ .10	$ .10	—
$ 3,680	$ 3,338	$ 2,989	$ 2,365	$ 1,876	$ 1,577	$ 952	$ 1,092
$ 2.19	$ 1.98	$ 1.83	$ 1.51	$ 1.23	$ 1.05	$ .68	$ .78
$ 4,173	$ 4,233	$ 3,919	$ 1,757	$ 2,943	$ 2,299	$ 613	$ 407
$ 20,897	$ 18,372	$ 15,567	$ 12,841	$ 12,105	$ 10,044	$ 8,233	$ 8,283
$ 11,097	$ 9,695	$ 9,105	$ 8,045	$ 6,675	$ 6,157	$ 4,836	$ 4,970
—	—	—	—	—	—	—	—
$ 197	$ 117	$ 105	—	—	—	—	—
$ 3,650	$ 3,498	$ 3,327	$ 3,230	$ 2,983	$ 2,671	$ 2,315	$ 1,972
75,658	64,403	57,570	48,865	39,210	35,425	25,439	23,850

Portable bore-hole rig drilling for uranium in Colorado.

Jumbo railway tank car being loaded at a gas plant in the Province of Alberta.

Plains-Western crew connecting natural gas to new housing development.



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CANADIAN HYDROCARBONS LIMITED

ANNUAL REPORT 1968

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